

**BOARD OF COUNTY COMMISSIONERS**

**AGENDA ITEM SUMMARY**

Meeting Date: February 19, 2003

Division: Management Services

Item: Yes X No     

Department: Administrative Services/Risk Mgmt

**AGENDA ITEM WORDING:** Approval to accept proposal from MARSH USA for Pollution Liability Insurance in the amount of \$62,396

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**ITEM BACKGROUND:** RFP was issued for Pollution Insurance coverage on December 17, 2002

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**PREVIOUS RELEVANT BOCC ACTION:** Existing 5-year policy term accepted by Board expires on 3/12/2003. This includes a one-month extension from current carrier.

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**CONTRACT/AGREEMENT CHANGES:** Contract coverage dates are 3/12/03- 3/12/04. Retention level raised from \$25,000 to \$50,000.

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**STAFF RECOMMENDATIONS:** Approval

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**TOTAL COST:** \$62,396

**BUDGETED:** Yes X No     

**COST TO COUNTY:** \$62,396

**SOURCE OF FUNDS:** primarily ad valorem

**REVENUE PRODUCING:** Yes      No X **AMOUNT PER MONTH**      **Year**     

**APPROVED BY:** County Atty      OMB/Purchasing      Risk Management     

**DIVISION DIRECTOR APPROVAL:**

Sheila A. Barker  
SHEILA BARKER

**DOCUMENTATION:** Included X To Follow      Not Required     

**DISPOSITION:**     

**AGENDA ITEM #** D37

## INTERISK CORPORATION

**Consultants**

Risk Management  
Employee Benefits

1111 North Westshore Boulevard  
Suite 208  
Tampa, FL 33607-4711  
Phone (813) 287-1040  
Facsimile (813) 287-1041

January 31, 2003

Mr. William R. Grunhaus ARM  
Risk Manager  
Monroe County  
1100 Simonton Street  
Suite 268  
Key West, Florida 33040

Subject: Evaluation of Proposals for Pollution Liability Insurance

Dear Bill:

In early 1998 the County entered into a five year Pollution Liability policy with United Capital Insurance Company effective February 12, 1998. In early July 2000, United Capital started reporting financial difficulties that ultimately resulted in United Capital being placed in liquidation. As part of the liquidation process, Gulf Underwriters Insurance Company assumed a large portion of United Capital's pollution liability policies. Monroe County was one of the accounts assumed by Gulf.

In December 2002, a "Call for Bids" for the County's Pollution Liability insurance was published in accordance with the Purchasing Department's procedures. The following agents/brokers submitted requests for a copy of the detailed bid specifications.

- > Arthur J. Gallagher
- > Marsh USA
- > Environmental Insurance Services (the incumbent agent)
- > Financial Resource Management
- > The Gehring Group.

In an effort to control the process and to ensure all participants and equal opportunity to structure a competitive program, the agents were required to submit, ranked in order of preference, those insurers that wanted to utilize to develop their proposals. A total of fifteen (15) different insurers were requested. It is believed that the companies requested represents the majority, if not all, of the insurers with the ability and desire to provide the types and amounts of insurance required by the County. During the process, three (3) addendums were issued to all proposers responding to requests for additional information.

Sealed proposals were received by the County's Purchasing Department through 11:00 am, January 29, 2003 at which time they were publicly opened by the Purchasing Department. The following agents/brokers submitted proposals:

- > Arthur J. Gallagher
- > Marsh USA
- > Financial Resource Management

Attached are spreadsheets comparing the major features of each proposal submitted. The appropriate sections of the spreadsheets were reviewed with each agent/broker to ensure their proposals were accurately displayed. Following is a narrative discussion of each proposal with Interisk's recommendations regarding its acceptance or rejection.

#### Financial Resource Management

Financial Resource Management (FRM) proposed coverage using American Safety Risk Retention Group as the insurer. They offered two separate proposals for the County to consider. The first option would only provide coverage for the County's closed landfills, closed incinerator plants and its petroleum storage tanks. The second option would provide coverage for all of the County's locations. Both options proposed limits of \$5 million with a per claim deductible of \$25,000. FRM proposed an annual premium of \$47,370 for its first option and an annual premium of \$52,327 for its second option. FRM also proposed multi-year options as displayed on the attached schedules.

FRM's proposals would only provide coverage if the contamination migrated beyond the boundaries of the County's property. This is viewed as a significant weakness in their program. While American Safety appears to operate as a traditional insurance company, they are technically a "Self Insured Retention Group" (SIRRG) organized under the Federal Liability Risk Retention Act of 1988. As a SIRRG, American Safety is owned and controlled by its member insureds and must rely solely on premiums generated to pay claims as they are presented. According to the latest AM Best Key Rating Guide, American Safety only has Policy Holder Surplus (Net Worth) of \$4.6 million which is not enough funds to pay one policy limit loss. Due to the limitations of coverage being offered by American Safety and its lack of financial strength, it is recommended that American Safety be eliminated from consideration.

#### Arthur J. Gallagher

Gallagher submitted proposals from two different insurers. The first proposal was from the American International Group (AIG) and the second proposal was from ACE Property and Casualty Insurance Company. Both AIG and ACE enjoy a favorable rating from the A.M. Best and Company, the leading evaluator of insurance company operations. The coverages offered by both AIG and ACE were consistent with those currently purchased by the County with one notable exception. The policy will not provide on-site cleanup coverage for the County's closed landfills. The proposal did include several enhancements such as coverage for claims arising out of the transportation of waste and coverage for claims originating from disposal sites. Since the County has transferred this liability to the contractor(s) that transport and dispose of the County's waste and require the contractors to carry appropriate insurance, it is believed that these enhancements provide minimal added protection.

The AIG proposal included limits of \$5 million with per claim deductible options of \$25,000 and \$100,000. The proposed annual premium for the \$25,000 deductible option was \$161,649. Gallagher also proposed a three year premium of \$286,118 for this option.

The proposed annual premium for the \$100,000 option was \$145,485 with a proposed premium of \$257,506 for a three year policy.

The terms and conditions of the ACE proposal were similar to those being offered by AIG. ACE proposed limits of \$5 million, subject to a \$25,000 deductible. ACE's proposed annual premium was \$106,038 and the proposed premium for a three year policy was \$192,473.

Both the AIG and ACE proposals contained pricing significantly higher than qualified proposals from other agents/brokers. It is therefore recommended that both the AIG and ACE proposals, as submitted by Arthur J. Gallagher be eliminated from consideration.

Marsh USA

Marsh submitted several proposals from the Indian Harbor Insurance Company. Indian Harbor is part of the XL Insurance Group that enjoys a favorable rating from A.M. Best and Company. Separate proposals for limits of \$1 million, \$5 million and \$10 million was submitted by Marsh. Each proposal had deductible options of \$25,000 and \$50,000.

The terms and conditions of the proposals were consistent with those of the policy currently purchased by the County, except no coverage for on-site clean up at the closed landfills and the airports is provided. It was learned that most, if not insurers, have discontinued clean up coverage for landfills because the insurance industry has been forced to pay for the restoration of the land that was never intended. It is believed that the exclusion of clean up coverage at the airports was prompted by the recent incident at the Key West airport.

The following table displays the annual premiums for the various options proposed by Marsh.

Limit	Annual Premium	
	\$25,000 Deductible	\$50,000 Deductible
\$1 million	\$36,347	\$29,404
\$5 million	\$77,127	\$62,396
\$10 million	\$98,839	\$79,961

It is not believed that limits of \$1 million adequately protects the interests of the County and therefore it is recommended that Marsh's \$1 million options be eliminated from consideration. Based on the favorable loss experience of the County, it is believed that limits of \$10 million are not justified. It is therefore recommended that Marsh's \$10 million options be eliminated from consideration.

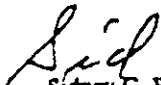
If the County were to experience a major pollution claim, the ultimate cost of the claim could easily approach \$5 million. It is therefore recommended that the County retain pollution limits of \$5 million. The premium savings associated with the \$50,000 deductible option, coupled with the County's favorable loss experience, supports the County purchasing the higher deductible.

The terms, conditions, stability of insurer and the pricing of the Indian Harbor Insurance Company's proposal as submitted by Marsh USA are superior to the other proposals received and it is therefore recommended that Monroe County accepts the Indian Harbor proposal with a \$5 million limit and a \$50,000 deductible for the 2003/2004 policy year.

As always, please do not hesitate to call if you have any questions.

Cordially,

INTERISK CORPORATION

  
Sidney G. Webber  
CPCU, ARM

**MONROE COUNTY  
2003/2004 POLLUTION LIABILITY  
PROPOSAL EVALUATION**

**\$1 MILLION LIMIT OF LIABILITY PROPOSALS**

	Current Program	Marsh	Marsh
Insurer	Gulf Ins. Co.	Indian Harbor Ins. Co.	Indian Harbor Ins. Co.
AM Best Rating	A++	A+	A+
Limits			
Third Party Liab.	\$5 million	\$1 million	\$1 million
On Site Clean Up	\$5 million	\$1 million	\$1 million
Deductibles			
Third Party Liab.	\$25,000	\$25,000	\$50,000
On Site Clean Up	\$25,000	\$25,000	\$50,000
Occurrences/Claims Made			
Third Party Liab.	Claims Made	Claims Made	Claims Made
On Site Clean Up	Claims Made	Claims Made	Claims Made
Retro Dates	Various from 7/10/95 to 2/12/98	7/10/95	7/10/95
Does coverage apply to all County owned property	Yes Subject to notification within 120 days	On Site coverage does not extend to Landfills or airports.	On Site coverage does not extend to Landfills or airports.
Defense Cost included within limits	Yes	Yes	Yes
Automatic reinstatement of limits included	Yes subject to addl. Premium of 33.3%	No	No
Premium	\$38,286	\$36,347	\$29,404
Comments	Five year premium was \$188,333. Policy was extended for 30 days for an additional premium of \$3,095 for a total premium of \$191,428		

**MONROE COUNTY  
2003/2004 POLLUTION LIABILITY  
PROPOSAL EVALUATION**

**\$5 MILLION LIMIT OF LIABILITY PROPOSALS**

	<b>Current Program</b>	<b>Marsh</b>	<b>Marsh</b>	<b>Financial Resource Management</b>	<b>Financial Resource Management</b>	<b>Arthur J. Gallagher</b>	<b>Arthur J. Gallagher</b>
<b>Insurer</b>	Gulf Ins. Co.	Indian Harbor Ins. Co.	Indian Harbor Ins. Co.	American Safety Risk Retention Group	American Safety Risk Retention Group	AIG International Specialty Lines	AIG International Specialty Lines
<b>AM Best Rating</b>	A++	A+	A+	A	A	A++	A++
<b>Liability</b>							
<b>Third Party Liab.</b>	\$5 million	\$5 million	\$5 million	\$5 million	\$5 million	\$5 million	\$5 million
<b>On Site Clean Up</b>	\$5 million	\$5 million	\$5 million	\$5 million	\$5 million	\$5 million	\$5 million
<b>Deductibles</b>							
<b>Third Party Liab.</b>	\$25,000	\$25,000	\$50,000	\$25,000	\$25,000	\$25,000	\$100,000
<b>On Site Clean Up</b>	\$25,000	\$25,000	\$50,000	\$25,000	\$25,000	\$25,000	\$100,000
<b>Occurrence/Claims Made</b>							
<b>Third Party Liab.</b>	Claims Made	Claims Made	Claims Made	Claims Made	Claims Made	Claims Made	Claims Made
<b>On Site Clean Up</b>	Claims Made	Claims Made	Claims Made	Claims Made	Claims Made	Claims Made	Claims Made
<b>Retro Dates</b>	Various from 7/10/95 to 2/12/98	7/10/95	7/10/95	Various from 7/10/95 to 2/12/98	Various from 7/10/95 to 2/12/98	None, except 2/12/98 for airports and closed landfills	None, except 2/12/98 for airports and closed landfills
<b>Does coverage apply to all County owned property</b>	Yes Subject to notification within 120 days	On Site coverage does not extend to Landfills or airports.	On Site coverage does not extend to Landfills or airports.	No. Coverage only applies to closed landfills, closed incinerators and Petroleum Storage Tanks	Yes, subject to schedule furnished to insurer by County	On Site coverage does not extend to Landfills. Coverage may be added after insurers inspect property	On Site coverage does not extend to Landfills. Coverage may be added after insurers inspect property
<b>Defense Cost included within limits</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Automatic reinstatement of limits included</b>	Yes subject to addl. Premium of 33.3%	No	No	No	No	No	No
<b>Premium</b>	\$38,286	\$77,127	\$62,396	\$47,570	\$52,327	\$161,649	\$145,485
<b>Comments</b>	Five year premium was \$188,333. Policy was extended for 30 days for an additional premium of \$3,095 for a total premium of \$191,428			Multi Year Options 2Year - \$73,734 3Year - \$104,654 4Year - \$122,493	Multi Year Options 2Year - \$81,107 3Year - \$115,119 4Year - \$134,742	Multi Year Option 3 Year - \$286,118 Third Party Liability extends to emergency/hazard response, fire rescue exacerbating and artificial reefs. Coverage also extends to transportation of waste and disposal sites.	Multi Year Option 3 Year - \$257,506 Third Party Liability extends to emergency/hazard response, fire rescue exacerbating and artificial reefs. Coverage also extends to transportation of waste and disposal sites.

**MONROE COUNTY  
2003/2004 POLLUTION LIABILITY  
PROPOSAL EVALUATION**

**\$5 MILLION LIMIT OF LIABILITY PROPOSALS  
(CONTINUED)**

	Current Program	Arthur J. Gallagher
Insurer	Gulf Ins. Co.	ACE
AM Best Rating	A++	A
Limits		
Third Party Liab.	\$5 million	\$5 million
On Site Clean Up	\$5 million	\$5 million
Deductibles		
Third Party Liab.	\$25,000	\$25,000
On Site Clean Up	\$25,000	\$25,000
Occurrence/Claims Made		
Third Party Liab.	Claims Made	Claims Made
On Site Clean Up	Claims Made	Claims Made
Retro Dates	Various from 7/10/95 to 2/12/98	None, except 2/12/98 for airports and closed landfills
Does coverage apply to all County owned property	Yes Subject to notification within 120 days	On Site coverage does not extend to Landfills or Airports. Coverage may be added after insurers inspect property
Defense Cost included within limits	Yes	Yes
Automatic reinstatement of limits included	Yes subject to addl. Premium of 33.3%	No
Premium	\$38,286	\$106,038
Comments	Five year premium was \$188,333. Policy was extended for 30 days for an additional premium of \$3,095 for a total premium of \$191,428	Multi Year Option 3 Year - \$192,473 Third Party Liability extends to emergency/hazard response, fire rescue exacerbating and artificial reefs. Coverage also extends to transportation of waste and disposal sites subject to a \$1 million sub-limit.

**MONROE COUNTY  
2003/2004 POLLUTION LIABILITY  
PROPOSAL EVALUATION**

**\$10 MILLION LIMIT OF LIABILITY PROPOSALS**

	<b>Current Program</b>	<b>Marsh</b>	<b>Marsh</b>
<b>Insurer</b>	Gulf Ins. Co.	Indian Harbor Ins. Co.	Indian Harbor Ins. Co.
<b>A.M. Best Rating</b>	A++	A+	A+
<b>Limit</b>			
<b>Third Party Liab.</b>	\$5 million	\$10 million	\$10 million
<b>On Site Clean Up</b>	\$5 million	\$10 million	\$10 million
<b>Deductibles</b>			
<b>Third Party Liab.</b>	\$25,000	\$25,000	\$50,000
<b>On Site Clean Up</b>	\$25,000	\$25,000	\$50,000
<b>Occurrence/Claims Made</b>			
<b>Third Party Liab.</b>	Claims Made	Claims Made	Claims Made
<b>On Site Clean Up</b>	Claims Made	Claims Made	Claims Made
<b>Retro Dates</b>	Various from 7/10/95 to 2/12/98	7/10/95	7/10/95
<b>Does coverage apply to all County owned property</b>	Yes Subject to notification within 120 days	On Site coverage does not extend to Landfills or airports.	On Site coverage does not extend to Landfills or airports.
<b>Defense Cost included within limits</b>	Yes	Yes	Yes
<b>Automatic reinstatement of limits included</b>	Yes subject to addl. Premium of 33.3%	No	No
<b>Premium</b>	\$38,286	\$98,839	\$79,961
<b>Comments</b>	Five year premium was \$188,333. Policy was extended for 30 days for an additional premium of \$3,095 for a total premium of \$191,428		